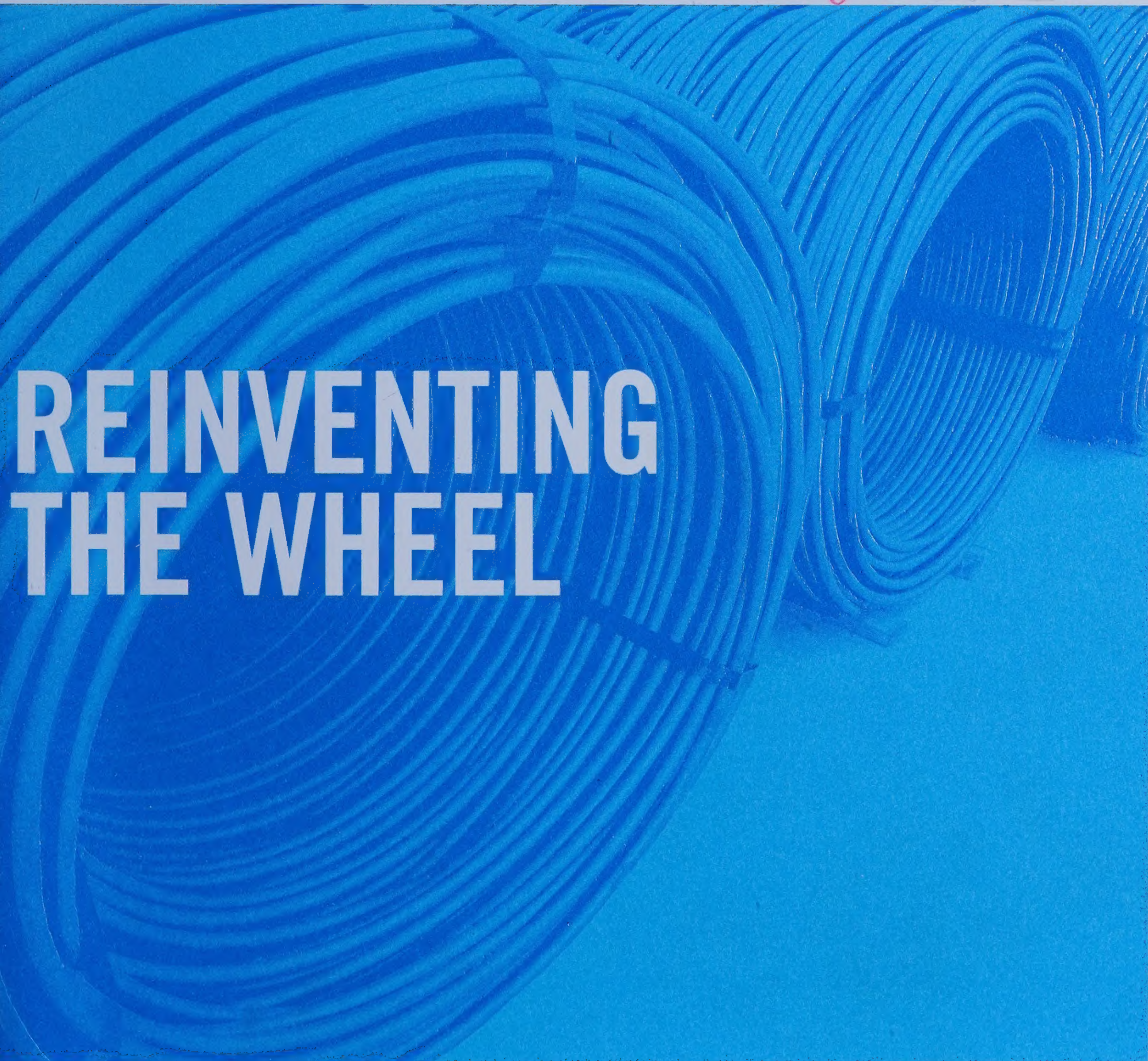
2003 C-TECH ENERGY SERVICES INC. ANNUAL REPORT

REINVENTING THE WHEEL



OLD METHOD

ENGINEERING REPORT
"CONCEPT OF CONTINUOUS-ROD PUMPING"
BY FRANK POOL JR., 1969

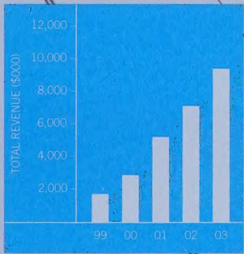
THE PROBLEM The concept of continuous-rod pumping is nearly as old as the rod pumping system itself. However, there was a three-fold problem with the concept. First of all, there was a problem of manufacturing the continuous-rod and finding a suitable means of heat treating the rod. Secondly, there was the question of transporting the rod string to the well. And finally, there was the difficulty of handling the continuous-rod in running and pulling the rod string in the well.

This new approach to an old method of pumping may very well revolutionize the artificial lift industry.

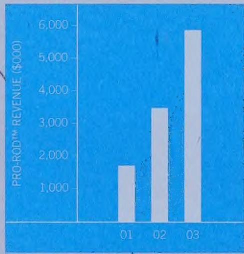
C-TECH NEW APPROACH

C-TECH RESULTS

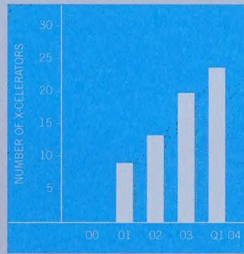
TOTAL REVENUES INCREASE OF 76% FROM 2001 TO 2003



PRO-ROD DIVISION TOTAL REVENUES INCREASE OF 236% FROM 2001 TO 2003

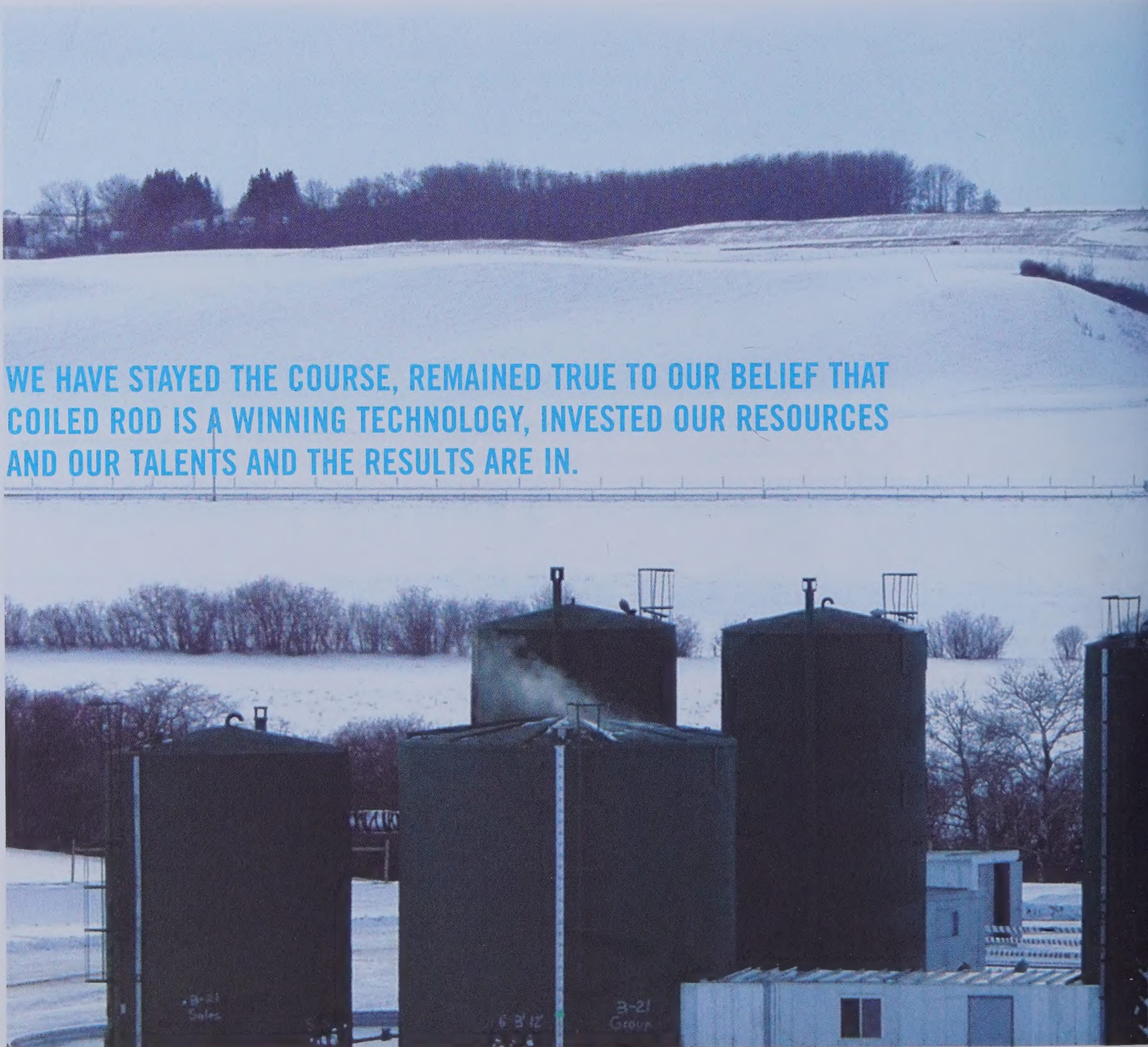


X-CELERATORS IN OPERATION



THE INNOVATION In 1969, L. Douglas Patton and Frank Pool Jr. studied the feasibility of coiled rod and came to the conclusion that it could revolutionize the oilfield. It could have if someone had taken the time to overcome a few of the challenges the system faced. For over 30 years this superior method of servicing had laid dormant – waiting for someone willing to dedicate the time, manpower and vision to find a way to make this system work. For the past five years, C-Tech has remained dedicated to developing coiled rod technology and the results are clear. The coiled rod revolution is becoming a reality.

PRESIDENT'S REPORT

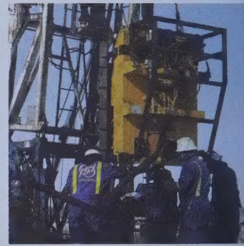


WE HAVE STAYED THE COURSE, REMAINED TRUE TO OUR BELIEF THAT COILED ROD IS A WINNING TECHNOLOGY, INVESTED OUR RESOURCES AND OUR TALENTS AND THE RESULTS ARE IN.

DEVELOPMENTS AND ACCOMPLISHMENTS IN THE LAST YEAR INCLUDE:

- Total revenue increased 32% from 2002
- Pro-Rod™ sales have increased 70% from 2002
- Number of X-celerator® units has almost doubled in the last two years
- Bottom line improvement in 2003 of almost $1 million from 2002
- Vertical well pilot project exceeds 300 wells and proves coiled rod's advantages
- Third generation X-celerator® built and proven; fourth generation series under construction
- Servicing wells in the United States with world's largest well servicing company

PRESIDENT'S REPORT



More than 30 years ago, Frank Pool Jr. and L. Douglas Patton developed a road map that would lead the oilfield industry into a new era of productivity. The only problem was... no one believed investing in overcoming the documented challenges of coiled technology would pay off. Well, almost no one.

Over the past five years, C-Tech Energy Services has found and developed new ways to use this technology. The talented people in C-Tech's manufacturing and design division were faced with the challenges and developed the answers – all the while remaining a revenue generating business unit. C-Tech's well services division was enhanced and renamed. The company's new ProRod™ division now gave C-Tech the ability to produce coiled rod along with the equipment to run the rod. These two main developments have given C-Tech the ability to offer its customers a complete coiled rod package that includes the rod, the rigs, and the right expertise to get the job done.

This achievement, along with many others, has helped us reach an exciting junction in our odyssey of the past five years. We have stayed the course, remained true to our belief that coiled rod is a winning technology, invested our resources and our talents and the results are in.

OPERATIONS RESULTS AND INITIATIVES

A pilot project secured by C-Tech's Pro-Rod™ division last year saw the use of our coiled rod in servicing 300 new vertical oil well completions for a Canadian-based major heavy oil producer. The results exceeded the customer's expectations and the pilot project proved the advantages of coiled rod in vertical wells.

In 2003, C-Tech developed the first 500SD Series X-celerator® with an operating capacity of 12,000 feet for the largest well servicing company in the United States. The unit is currently working efficiently and continues to prove the case for coiled rod. The client is extremely happy with the results and C-Tech is reasonably optimistic that this relationship will generate rod sales.

C-Tech's design and manufacturing division continues to be recognized as a top-end manufacturer of oilfield service equipment and is an integral part of our foundation. Over the past year, this division has made significant improvements in Pro-Rod™'s coiled rod technology and has developed and manufactured four different versions of the X-celerator®.

Photo:
Clockwise: Rigging up X-celerator®, Husky Oil Operations, Lloydminster business unit

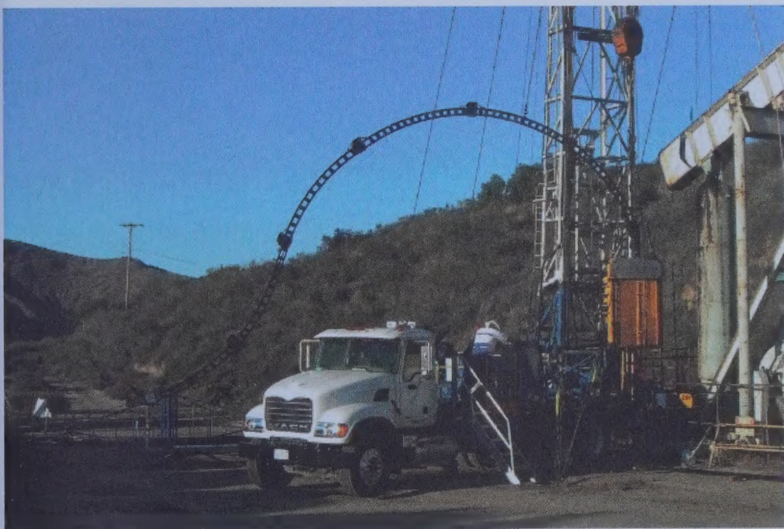


Photo:
Key Energy unit with 500SD X-celerator®, Ventura, California

Field Welding

FINANCIAL RESULTS

C-Tech continued its financial progress and was profitable in 2003. With increased total revenues of over $2,300,000, C-Tech realized a profit of approximately $90,000 in contrast to a loss of over $820,000 in 2002. In the past two years, we have seen an overall revenue increase of 76%, including a substantial increase in the Pro-Rod™ division of 236%. Use of X-celerators® has continued to climb, moving from just one unit in 2000 to 25 units in the first quarter of 2004.

OUTLOOK

We have every reason to believe 2004 will be the best year yet for our investors. The sale of units to the largest well servicing company in the United States is a significant indication that the U.S. market is ready to accept our technology. And once the American market shows the industry the way, other international markets are sure to open. In fact, the first quarter of 2004 has already yielded our first orders to South America.

This is not to say that we will not face challenges along the way. In 2004, we must continue to aggressively market our technology, products and new approach. We must ensure that the oilfield industry around the world understands the advantages of coiled rod and more importantly, that we have solved the problems that were there for the past thirty years.

Again, we choose to find guidance in the past. Frank Pool Jr. wrote in his 1969 report that "years ago, there were hundreds of thousands of service stations equipped for handling millions of tire with tubes in them. As the use of tubeless tires became more and more prevalent, the service stations changed over their equipment to handle tubeless tires. Today, every service station in the free world has the equipment to handle tubeless tire repairs. As the oilfield industry accepts the continuous rods as a means for artificial lift, the servicing aspect of the continuous (coiled) rod will take care of itself."

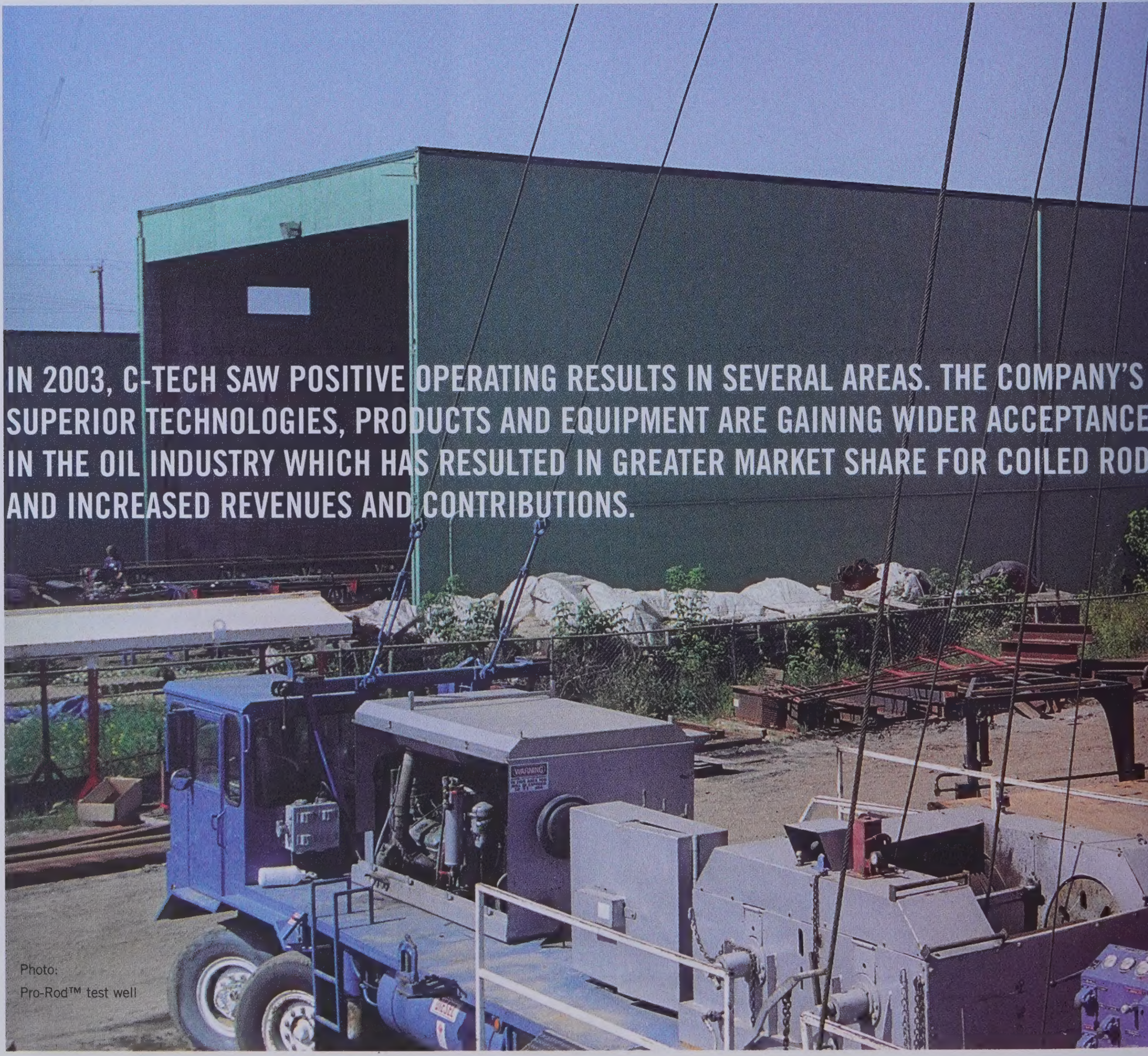
We couldn't agree more.

We want to thank the shareholders, management team, staff and our customers for their dedication, patience and support. We sincerely believe that the coming year will result in positive returns for your support of the company and its technologies through the increased use of coiled rod.

On behalf of the Board of Directors.

Mark Widney
President and Chief Executive Officer

OPERATIONS REPORT

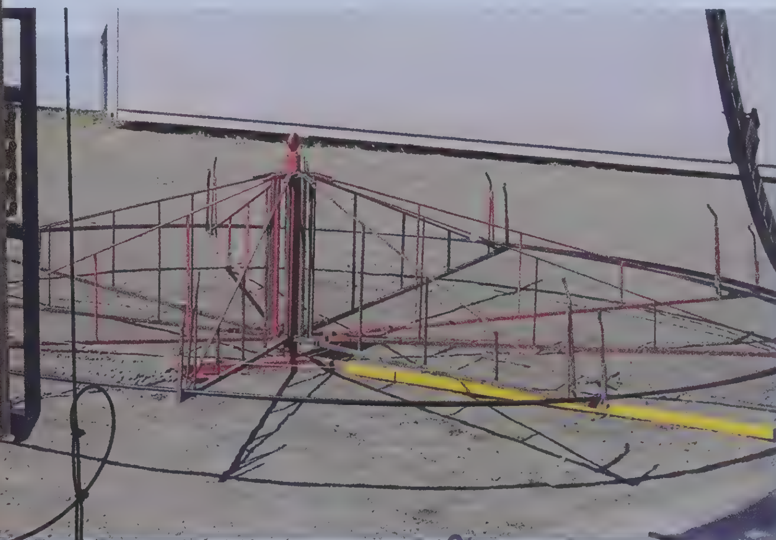


IN 2003, C-TECH SAW POSITIVE OPERATING RESULTS IN SEVERAL AREAS. THE COMPANY'S SUPERIOR TECHNOLOGIES, PRODUCTS AND EQUIPMENT ARE GAINING WIDER ACCEPTANCE IN THE OIL INDUSTRY WHICH HAS RESULTED IN GREATER MARKET SHARE FOR COILED ROD AND INCREASED REVENUES AND CONTRIBUTIONS.

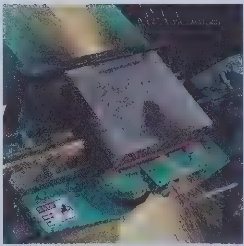
Photo:
Pro-Rod™ test well

THE COMPANY REALIZED NET EARNINGS FOR THE YEAR OF $89,557 AND CASH FLOW FROM OPERATING ACTIVITIES OF $959,341.

C-Tech operates two distinct business units - the Design and Manufacturing division and the Pro-Rod™ division. The Pro-Rod™ division includes Pro-Rod™ coiled rod manufacturing, sales and related services, mobile coiled rod service rigs, and X-celerator® sales, rentals and related services.



OPERATIONS REPORT



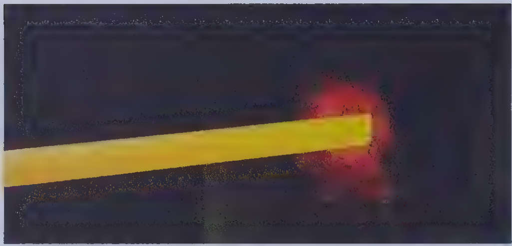


Photo:
Pro-Rod™ coiled rod manufacturing process

PRO-ROD™ DIVISION

Over the past year, the Pro-Rod™ division realized a 70 per cent increase in revenues in 2003 from 2002. This was a result of increased rod sales and associated increased revenues in the related services attached to rod sales - coiled rod installations by Pro-Rod™ equipment and X-celerator® production, rentals and services.

Increased coiled rod sales were generated primarily from growing market acceptance of C-Tech's X-celerator® and coiled rod technology, resulting in coiled rod displacing conventional rod in directional and vertical wells. A "micro rod plant" has been set up in Lloydminster to better expedite and improve service to our customers in this area. This plant creates efficiencies in supplying coiled rod and associated services in the greater Lloydminster region. In 2003, Pro-Rod™ entered into an agreement which saw the use of coiled rod in over 300 vertical wells for a Canadian based major heavy oil producer. The pilot project is exceeding the expectations of our customer and they are experiencing lower lifting costs on their wells through the use of Pro-Rod™ products and technology.

The oil industry acceptance of the 300 and 400 Series X-celerator® continues to grow. By the end of 2003, there have been a total of 21 X-celerators® manufactured, with at least 25 being projected early in 2004.

The increased coiled rod sales also resulted into higher utilization and revenues of all service rig equipment. As at the end of 2003, there were three mobile coiled rod service rigs and two truck-mounted X-celerator® units available on a full-time basis.

C-Tech still feels that there are huge market opportunities for coiled rod in the United States and marketing initiatives are ongoing with several oil and service companies for increased penetration in this market. In 2003, Pro-Rod™ developed a 500SD Series X-celerator® with an operating capacity up to 12,000 feet. This unit was sold to a United States based customer who is the largest well service company in the world. We hope to generate additional coiled rod sales through this relationship.

DESIGN AND MANUFACTURING DIVISION

The manufacturing division experienced a slight decrease of 2% in external revenues for the year. It produced a substantial portion of the capital asset requirements for the Pro-Rod™ division, however, totaling $855,054 for the year. This included one truck-mounted X-celerator® unit, a major upgrade to one of the service rigs and the manufacture of four X-celerator® units.

Through persistent marketing efforts, the manufacturing division identified some potential United States customers for C-Tech manufactured rigs and other equipment. These efforts have been successful in obtaining the contract for the sale of the first flushby unit to be introduced to the United States.

RESEARCH & DEVELOPMENT

Although research and development activity is still ongoing, the main emphasis for the company is now in production, marketing and sales initiatives in Canada and the United States. New coiled rod products and enhanced X-celerator® functions and different models are constantly being investigated, designed and completed.

FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Photo:
Units manufactured in 2003 by C-Tech Design and Manufacturin[g] division

OVERALL PERFORMANCE

The following discussion summarizes significant factors affecting the consolidated operating results and financial condition of C-Tech Energy Services Inc. ("C-Tech") for the year ended December 31, 2003. This discussion should be read in conjunction with the consolidated financial statements and notes thereto. The date of this discussion is March 12, 2004. Additional information relating to our company is available by accessing the SEDAR website at www.sedar.com. None of the information on the SEDAR website is incorporated by reference into this document by this or any other reference.

C-Tech operates two distinct business segments – a design and manufacturing division and the Pro-Rod™ division. The design and manufacturing division offers a range of products from third party upstream oil and gas equipment and structural steel components to coiled rod and tubing well service units. The division also designs and builds Pro-Rod's™ well servicing units, including the X-celerator®. The Pro-Rod™ division includes service rigs and truck mounted X-celerator® units, Pro-Rod™ coiled rod manufacturing, sales and related services and X-celerator® services and rentals. C-Tech has a U.S. subsidiary in California to promote and sell its products and services and enhance its market potential.

For the year ended December 31, 2003, C-Tech realized net earnings of $89,557 on total revenues of $9,594,300. The improvement in financial results from 2002, where the company had net losses of $822,832 on total revenues of $7,259,649, resulted primarily from substantially higher revenues and operating results in the Pro-Rod™ division. The increase in revenues in the Pro-Rod™ division of 70% arose from increased coiled rod sales and the associated increased utilization of service rigs and truck mounted X-celerator® units. Increased coiled rod sales were generated primarily from growing market acceptance of C-Tech's X-celerator® and coiled rod technology, resulting in coiled rod displacing conventional rod in directional and vertical wells. The company ended the year within $1,938,598 of working capital compared to $2,471,263 at the end of 2002.

SELECTED ANNUAL INFORMATION

Year ended December 31	2003	2002	2001
Total revenues	$ 9,594,300	$ 7,259,649	$ 5,451,156
Net income (loss)	$ 89,557	$ (822,832)	$ (885,598)
Basic and diluted income (loss) per share	$ 0.002	$ (0.022)	$ (0.028)
Total assets	$ 7,051,252	$ 7,086,417	$ 5,389,839
Total long-term financial liabilities	$ 685,930	$ 924,731	$ 1,214,599

Financial data has been prepared in accordance with accounting principles generally accepted in Canada and is reported in Canadian currency.

RESULTS OF OPERATIONS

The following is a summary of the results of operations.

Year ended December 31,	2003	2002	% change
Revenue – Pro-Rod™ segment	$ 5,866,283	$ 3,449,340	70 %
Revenue – Manufacturing segment	$ 3,728,017	$ 3,810,309	(2)%
Revenue – Total	$ 9,594,300	$ 7,259,649	32 %
Segment profit (loss) – Pro-Rod™	$ 373,785	$ (501,995)	NMF
Segment profit – Manufacturing	$ 216,720	$ 166,631	30 %
Segment loss – Administration	$ (500,948)	$ (487,468)	NMF
Administrative expenses – Total	$ 1,918,689	$ 1,634,346	17 %
Net profit (loss)	$ 89,557	$ (822,832)	NMF
Cash flow	$ 959,341	$ (92,688)	NMF

Design and manufacturing division external revenues decreased slightly by 2% to $3,728,017 from $3,810,309 in 2002. In addition, the manufacturing division did $855,054 of internal work in 2003 compared to $387,133 in 2002. The division provides a majority of the capital asset requirements of the Pro-Rod™ division. For 2003, this included an additional truck-mounted X-celerator® unit, upgrades to one of the service rigs and the manufacture of four X-celerators® and ancillary equipment required for additional coiled rod sales and services. Gross margin percentages remained fairly constant from year to year – 19.9% in 2003 as compared to 19.5% in 2002 and segment profit contribution was $216,720 in 2003 compared to $166,631 in 2002. Amortization expense for the division was $31,800 in 2003 and $31,215 in 2002.

Pro-Rod™ division revenues increased to $5,866,283 in 2003 from $3,449,340 in 2002, an increase of 70%. This increase can be attributed primarily to the following factors:

- Higher coiled rod sales
- Increased service rig utilization due to higher coiled rod sales
- Additional service rig equipment and X-celerators® working

Increased coiled rod sales were generated primarily from growing market acceptance of C-Tech's X-celerator® and coiled rod technology, resulting in coiled rod displacing conventional rod in directional and vertical wells. These increased sales resulted in additional service work and higher utilization of service rig equipment and X-celerators®. To meet the increased activity levels, capital equipment was added and upgrades were done to existing service rig equipment. An additional TMX unit was completed, one of the service rigs underwent a major upgrade and four X-celerators® were added to the fleet.

Pro-Rod™ segment profit was $373,785 for 2003 compared a loss of $501,995 in 2002. Amortization expense for the division was $841,020 in 2003 and $698,929 in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue breakdowns for 2003 by geographical areas were $9,211,799 in Canada and $382,501 in the United States. For 2002, these figures were $5,970,330 in Canada and $1,289,319 in the United States.

Total administrative expenses were $1,918,688 in 2003 compared to $1,634,346 in 2002 representing 20% of revenues for 2003 and 23% in 2002. Increased costs are mainly attributable to increased activity levels for the company. Administrative salaries, bonuses and benefits comprise the major portion of the expenses – 53% in 2003 and 46% in 2002. The increased expense is primarily due to part of employee remuneration being based on company sales, cash flow and profit. The other major components of general and administrative expenses include rent, utilities, professional fees, insurance, and travel and promotion costs. Costs for insurance increased by 65% due to increased volumes and higher premiums in Canada and due to significantly higher insurance premiums for U.S. operations coverage.

SUMMARY OF QUARTERLY RESULTS

The following tables present our unaudited quarterly results of operations for each of our last eight quarters. This data has been derived from our unaudited consolidated financial statements which were prepared on the same basis as the annual consolidated financial statements and, in our opinion, include all normal recurring adjustments necessary for the fair presentation of such information. These unaudited quarterly results should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2003.

	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Total revenue	$ 3,476,176	$ 2,140,919	$ 2,137,196	$ 1,840,009
Net earnings (loss)	$ 194,502	$ 157,053	$ (148,939)	$ (113,059)
Net earnings (loss) per share – basic and diluted	$ 0.004	$ 0.000	$ 0.000	$ (0.003)

	Q4 2002	Q3 2002	Q2 2002	Q1 2002
Total revenue	$ 2,435,772	$ 2,191,659	$ 957,816	$ 1,674,402
Net earnings (loss)	$ (230,116)	$ (51,112)	$ (336,221)	$ (205,383)
Net earnings (loss) per share – basic and diluted	$ (0.005)	$ (0.000)	$ (0.010)	$ (0.006)

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2003, C-Tech's working capital position was $1,938,598 as compared to $2,471,623 in 2002. Cash flow from operations, before changes in non-cash working capital items, was $959,341 for 2003 compared to $(92,688) for 2002. Fixed asset additions totaled $1,185,810 for the year.

The company has an operating loan facility to a maximum of $2,000,000 based on certain margin requirements regarding accounts receivable, inventories and work in progress. The company was not in violation of any of its financial covenants during the year. In accordance with the company's banking agreement, in addition to scheduled term loan principal payments, an annual cash sweep is required on March 31 following each fiscal year. The amount is capped at $400,000 per year. For fiscal 2003, the cash sweep payment will be $133,989.

The company is subject to interest rate fluctuations as both its operating loan and term loan interest are based on the prime rate.

CONTRACTUAL OBLIGATIONS

Payments due by year	Total	In 2004	In 2005 & 2006	In 2007 & 2008	After 2008
Long-term debt	$ 640,000	$ 373,989	$ 266,011	–	–
Capital leases	45,930	10,464	18,916	16,550	–
Operating leases	1,420,826	224,128	394,128	377,680	424,890
Total	$ 2,106,756	$ 608,581	$ 679,055	$ 394,230	$ 424,890

TRANSACTION WITH RELATED PARTIES

The Company rents premises from Widney Industries Inc., whose shareholders own 29.9% of the Company's outstanding shares. Rent for 2003 and 2002 amounted to $177,040. The Company has operating lease commitments with Widney Industries Inc. for rental of premises for $177,040 annually through 2006 and for $188,840 annually from 2007 to 2011.

We believe the commercial terms of the leases were at least as favourable to the Company as terms that could have been obtained from a third party.

BUSINESS RISK MANAGEMENT AND RISK FACTORS

The Pro-Rod™ division operates in the up-stream oil and gas industry which is directly affected by numerous factors beyond the Company's control such as global supply and demand for oil and gas, commodity price volatility, competition, changes in regulatory regimes, etc. In addition, capital spending and activity levels by oil and gas, exploration and production companies directly impact C-Tech's activity levels and profitability. The future success of this division will depend to a large extent on the continuing acceptance of the Company's coiled rod technology and increased market share of coiled rod versus conventional sucker rod.

Through aggressive marketing, imposing prudent financial controls, enhancements made to its coiled rod technology and coiled rod manufacturing plant, C-Tech believes it can minimize its risk and maximize its growth prospects. The Company is experiencing growing market acceptance of its technology and products and it continually strives to make further enhancements and improvements to its technology, as can be evidenced by its different series of X-celerators®.

The design and manufacturing division is not as dependent on one specific industry, which reduces its risk, but increased activity in this division is usually associated with higher levels of activity in the oil and gas industry.

The Company has strived to put a good management team together with experienced, knowledgeable and competent employees responsible for the various functional areas.

Since we conduct business in the United States and purchase materials from the United States, the Company is subject to fluctuations in currency exchange rates between the U.S. dollar and the Canadian dollar. Based on information on anticipated exchange rate fluctuations, the Company tries to minimize the effect of these fluctuations through forward exchange contracts.

A major component of the costs of goods sold is steel for both divisions. The supply and demand for steel in Canada and internationally impacts the costs and margins of our operations.

ACCOUNTING POLICIES

Stock-based compensation

No compensation expense is recognized when stock options are granted to employees, officers or directors. Consideration paid by employees, officers or directors on the exercise of options is credited to share capital.

Effective January 1, 2004, the Company will adopt the new Canadian accounting standard for stock-based payments to employees. As such, new awards of stock options to employees made on or after January 1, 2004 will be accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense. The amount of compensation will be measured at the date the option is granted. The expense will be recognized in income over the service period of the employee to whom the option was granted. Any consideration paid on the exercise of stock options will be credited to share capital. Previously, the Company did not record any compensation expense upon the issuance of stock options. This change in accounting policy will be applied retroactively with an adjustment to the deficit at January 1, 2004 to reflect the cumulative effect of the change on prior periods.

Had compensation costs for the Company's stock option plan been determined at the grant date of the award using the fair value method, additional compensation expense of $33,014 would have been recorded in 2003 in the consolidated statement of operations.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records properly maintained to provide reliable information for the preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The audit committee of the Board of Directors, which is comprised of three directors who are not employees of the Corporation, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

Director

Director

AUDITORS' REPORT

To the Shareholders of C-Tech Energy Services Inc.

We have audited the consolidated balance sheets of C-Tech Energy Services Inc. as at December 31, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
March 12, 2004

CONSOLIDATED BALANCE SHEETS

As at December 31, 2003 and 2002

	2003	2002
Assets		
Current assets		
Cash	$ –	$ 318,055
Accounts receivable (note 3)	2,237,974	2,441,839
Inventories (note 4)	1,318,137	1,248,625
Prepaid expenses	105,073	48,508
	3,661,184	4,057,027
Patents and licenses (note 5)	25,997	18,187
Property, plant and equipment (note 6)	3,364,071	3,011,203
	7,051,252	7,086,417
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	446,129	170,000
Accounts payable and accrued liabilities	892,004	671,579
Current portion of long-term debt (note 8)	384,453	284,731
Deferred revenue	–	459,094
	1,722,586	1,585,404
Long-term debt (note 8)	301,477	640,000
	2,024,063	2,225,404
Commitments (note 9)		
Shareholders' Equity		
Share capital (note 10)	7,848,595	7,771,976
Deficit	(2,821,406)	(2,910,963)
	5,027,189	4,861,013
	7,051,252	7,086,417

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended December 31, 2003 and 2002

	2003	2002
Balance – Beginning of year	$ 2,910,963	$ 2,088,131
Net (earnings) loss for the year	(89,557)	822,832
Balance – End of year	2,821,406	2,910,963

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2003 and 2002

	2003	2002
Revenue (note 11)	$ 9,594,300	$ 7,259,649
Cost of goods sold	6,669,764	5,657,518
	2,924,536	1,602,131
General and administrative expenses	1,918,688	1,634,346
Amortization	872,820	730,144
Interest on long-term debt	46,507	59,731
Earnings (loss) before other income (expenses)	86,521	(822,090)
Other income (expense)		
Gain on disposal of property, plant and equipment	3,036	–
Interest	–	(742)
	3,036	(742)
Net earnings (loss) for the year	89,557	(822,832)
Basic and diluted earnings (loss) per share (note 12)	0.002	(0.022)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

	2003	2002
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the year	$ 89,557	$ (822,832)
Items not affecting cash		
Amortization	872,820	730,144
Gain on disposal of property, plant and equipment	(3,036)	–
	959,341	(92,688)
Net change in non-cash working capital items (note 13)	(160,881)	(1,208,691)
	798,460	(1,301,379)
Financing activities		
Increase (decrease) in bank indebtedness	276,129	(690,555)
Repayment of long-term debt	(286,489)	(289,868)
Proceeds from issuance of shares	76,619	3,219,090
	66,259	2,238,667
Investing activities		
Purchase of patents and licenses	(22,973)	(10,317)
Purchase of property, plant and equipment	(1,162,837)	(778,916)
Proceeds on disposal of property, plant and equipment	3,036	–
	(1,182,774)	(789,233)
(Decrease) increase in cash	(318,055)	148,055
Cash – Beginning of year	318,055	170,000
Cash – End of year	–	318,055
Supplementary information		
Interest paid	60,160	74,652
Income taxes paid	–	–

The accompanying notes are an integral part of these financial statements.

December 31, 2003 and 2002

1 BUSINESS AND BASIS OF PRESENTATION

C-Tech Energy Services Inc. (the "Company") was incorporated under the Business Corporation Act of Alberta and is listed on the TSX Venture Exchange. The Company is an Alberta based corporation comprising two key business divisions: Pro-Rod well services and manufacturing.

2 ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of these consolidated financial statements necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, C-Tech Oilwell Technologies Inc., 979078 Alberta Ltd. and Pro-Rod USA Inc. All intercompany balances and transactions have been eliminated upon consolidation.

b) Cash

Cash is comprised of cash on hand and balances with banks, less cheques issued in excess of funds on deposit.

c) Inventories

Rod plant inventory, construction materials, and work in progress are stated at the lower of cost and net realizable value with cost being determined on a first in first out basis.

d) Patents and licenses

Patents and licenses are recorded at cost. Amortization is calculated on a straight-line basis at an annual rate of 20%, which is the expected useful life of the assets. Patents and licenses are reviewed on an annual basis to determine possible revisions to amortization rates or net realizable value.

December 31, 2003 and 2002

e) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is calculated using the straight-line basis at the following annual rates, which are based on the expected useful life of the assets:

Computerware and office equipment	20% – 30%
Manufacturing and automotive equipment	20%
Mobile rig and rod plant equipment	15% – 33%
Leasehold improvements	10%

f) Revenue recognition

Revenue in the Pro-Rod well services division is recognized as services are performed. Revenue from short-term manufacturing contracts is recorded using the completed contract method, whereby revenue is recognized upon completion of the related project. Any deposits received in advance are recorded as deferred revenue until contract completion.

g) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

h) Earnings per share

Earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated on the basis of the weighted average number of shares outstanding during the year plus the additional common shares that would have been outstanding if potentially dilutive common shares had been issued using the treasury stock method.

i) Stock-based compensation

The Company has a stock option plan, which is described in note 10.

No compensation expense is recognized when stock options are granted to employees, officers or directors. Consideration paid by employees, officers or directors on the exercise of options is credited to share capital.

Effective January 1, 2004, the Company will adopt the new Canadian accounting standard for stock-based payments to employees. As such, new awards of stock options to employees made on or after January 1, 2004 will be accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense. The amount of compensation will be measured at the date the option is granted. The expense will be recognized in income over the service period of the employee to whom the option was granted. Any consideration paid on the exercise of stock options will be credited to share capital. Previously, the Company did not record any compensation expense upon the issuance of stock options. This change in accounting policy will be applied retroactively with an adjustment to the deficit at January 1, 2004 to reflect the cumulative effect of the change on prior periods.

December 31, 2003 and 2002

j) Foreign currency translation

The Company's U.S. subsidiary operations are integrated with those at the parent company and are translated into Canadian dollars using the temporal method. Gains and losses resulting from these translation adjustments are included in earnings.

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at exchange rates prevailing on the transaction dates. The resulting exchange gains or losses on these items are included in earnings.

3 ACCOUNTS RECEIVABLE

	2003	2002
Trade accounts receivable	$ 2,256,264	$ 2,447,932
Employee loans	30,673	42,870
	2,286,937	2,490,802
Allowance for doubtful accounts	(48,963)	(48,963)
	2,237,974	2,441,839

Employee loans bear interest at 3% per annum and are repayable over five years.

Accounts receivable are all due from customers operating in the oil and gas industry in Alberta and California. The Company monitors the credit risk and credit standing of counter-parties on a regular basis. The Company's two largest customers comprise 21% of accounts receivable (2002 – 34%) and 40% of revenue (2002 – 27%).

4 INVENTORIES

	2003	2002
Rod plant inventory	$ 948,862	$ 424,611
Construction materials	134,305	122,282
Work in progress	234,970	701,732
	1,318,137	1,248,625

5 PATENTS AND LICENSES

	2003	2002
Cost	$ 75,816	$ 52,843
Less: Accumulated amortization	49,819	34,656
Net	25,997	18,187

Amortization of patents and licenses for the year was $15,613 (2002 – $10,569).

December 31, 2003 and 2002

6 PROPERTY, PLANT AND EQUIPMENT

			2003
	Cost	Accumulated amortization	Net
Computerware and office equipment	$ 148,782	$ 103,732	$ 45,050
Manufacturing and automotive equipment	546,546	454,899	91,647
Mobile rig and rod plant equipment	5,027,857	2,069,356	2,958,501
Leasehold improvements	354,498	85,625	268,873
	6,077,683	2,713,612	3,364,071

			2002
	Cost	Accumulated amortization	Net
Computerware and office equipment	$ 101,187	$ 93,801	$ 7,386
Manufacturing and automotive equipment	519,291	405,831	113,460
Mobile rig and rod plant equipment	3,936,735	1,330,701	2,606,034
Leasehold improvements	334,498	50,175	284,323
	4,891,711	1,880,508	3,011,203

Included in automotive equipment are assets acquired under capital leases with costs totalling $280,342 (2002 – $233,053) and accumulated amortization of $202,810 (2002 – $153,834).

During the year, automotive equipment with a cost of $47,688 (2002 – $nil) was acquired by means of capital lease.

Amortization of property, plant and equipment for the year was $857,207 (2002 – $719,575).

7 BANK INDEBTEDNESS

	2003	2002
Operating loan	$ 90,000	$ 170,000
Cheques issued in excess of funds on deposit	356,129	–
	446,129	170,000

The operating loan is authorized to a maximum of $2,000,000 and subject to a credit limit based on factored accounts receivable, inventory balances and work in progress balances as defined in the Company's banking agreement. Interest at prime plus 1.25% (4.5%; 2002 – 4.5%) per annum is calculated on daily outstanding principal and payable monthly in arrears. Collateral has been pledged in conjunction with the Company's term loan as described in note 8.

8 LONG-TERM DEBT

	2003	2002
Committed floating rate term loan, repayable in monthly instalments of $20,000 plus interest at prime plus 1% (4.5%; 2002 – 4.5%), maturing August 2006	$ 640,000	$ 880,000
Capital lease, repayable in blended monthly instalments of $788 including interest at nil% per annum. The final payment is due September 2008. Specific assets with a net book value of $44,924 (2002 – $nil) are pledged as collateral	44,930	–
Capital leases, repayable in blended monthly instalments of $3,082 including interest at 11% per annum. Specific assets with a net book value of $24,772 (2002 – $56,907) are pledged as collateral	1,000	35,206
Capital leases, repayable in blended monthly instalments of $1,601 including interest at 2.9% per annum. The final payment is due June 2003. Specific assets with a net book value of $7,837 (2002 – $22,312) are pledged as collateral	–	9,525
	685,930	924,731
Less: Current portion	384,453	284,731
	301,477	640,000

The conditions of the term loan require the Company to meet certain financial covenants on an ongoing basis.

Collateral pledged for the term loan and operating loan includes a general security agreement, an assignment of insurance, and a specific charge covering the Company's inventory, plant and equipment with a net book value of $727,929 at December 31, 2003.

Estimated principal repayments due in each of the next three years and in total are as follows:

2004	$ 384,453
2005	249,458
2006	35,469
2007	16,550
	685,930

In addition to scheduled term loan principal instalments, an annual cash sweep payment is required on March 31 following each fiscal year, commencing with the year ended December 31, 2003. This payment is determined in accordance with the Company's banking agreement and is capped at a maximum of $400,000 per year. Included within the current portion of long-term debt is the cash sweep payment of $133,989 (2002 – $nil).

9 COMMITMENTS

Future minimum lease payments for building and equipment leases due in each of the next five years and in aggregate thereafter, are as follows:

2004	$ 224,128
2005	204,134
2006	189,994
2007	188,840
2008	188,840
Remainder to 2011	424,890
	1,420,826

10 SHARE CAPITAL

Authorized		
Unlimited number of common, voting shares		
Unlimited number of First preferred shares		
Unlimited number of Second preferred shares		
Issued		
	2003	2002
45,101,521 common, voting shares (2002 – 44,701,521)	$ 7,848,595	$ 7,771,976

Transactions during the years ended December 31, 2003 and 2002 are as follows:

	Number of shares	Share capital
Balance – December 31, 2001	# 31,445,000	$ 4,522,886
Issued for cash on exercise of warrants	6,000,000	1,680,000
Issued for cash on exercise of options	300,000	30,000
Private placement	6,956,521	1,539,090
Balance – December 31, 2002	44,701,521	7,771,976
Issued for cash on exercise of options	400,000	76,619
Balance – December 31, 2003	45,101,521	7,848,595

On April 23, 2003, options were exercised to acquire 100,000 shares at the option price of $0.20 per share for total proceeds of $20,000. On June 27, 2003, options were exercised to acquire 300,000 shares at the option price of $0.20 per share for total proceeds of $60,000. Share capital was reduced by legal and accounting fees amounting to $3,381 related to the private placement of October 18, 2002.

Share options

The Company maintains a stock option plan (the "Plan") for the directors, officers, employees and consultants of the Company. The number of shares reserved under the Plan may be increased from time to time to equal up to 10% of the number of outstanding common shares of the Company. No one person may hold options representing the right to acquire more than 5% of the number of outstanding common shares of the Company. The exercise price of each option shall not be lower than the lowest price permitted by the TSX Venture Exchange.

At December 31, 2003, there were 2,000,000 options outstanding at a weighted average exercise price of $0.22 per share (2002 – 2,400,000 options at a weighted average exercise price of $0.25 per share).

Expiry date	Exercise price	Opening	Granted	Exercised	Cancelled	Closing
January 6, 2004	$ 0.33	# 150,000	# –	# –	# –	# 150,000
March 1, 2004	0.20	1,250,000	–	400,000	–	850,000
March 4, 2004	0.225	400,000	–	–	–	400,000
December 13, 2005	0.15	50,000	–	–	–	50,000
March 28, 2006	0.33	400,000	–	–	–	400,000
November 15, 2006	0.40	150,000	–	–	150,000	–
August 27, 2008	0.35	–	150,000	–	–	150,000
		2,400,000	150,000	400,000	150,000	2,000,000

On January 5, 2004, options were exercised to acquire 33,500 shares at the option price of $0.33 per share for total proceeds of $11,055. The balance of the options expiring on January 6, 2004 (116,500 shares) were not exercised.

On March 4, 2004, options were exercised to acquire 400,000 shares at the option price of $0.225 per share for total proceeds of $90,000.

The Company has applied to regulatory authorities to extend the expiry date of options to acquire 1,250,000 at $0.20 per share from March 1, 2004 to March 1, 2007. The extension is subject to shareholder approval.

As permitted by CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments, the Company has elected to continue measuring compensation expense as the excess, if any, of the quoted market value of the stock at the date of grant over the amount an optionee must pay to acquire the stock.

December 31, 2003 and 2002

Had compensation costs for the Company's stock option plan been determined at the grant date of the awards using the fair value method, additional compensation expense would have been recorded in the consolidated statement of operations for the year, with pro forma net loss and loss per share, as presented in the table below:

	2003	2002
Net earnings (loss) for the year	$ 89,557	$ (822,832)
Compensation expense arising from options awarded in current year	33,014	–
Pro forma net earnings (loss) for the year	56,543	(822,832)
Pro forma basic and diluted earnings (loss) per share (note 12)	0.001	(0.022)

Compensation expense for options awarded in the year reflects the amortization of the fair value of these options over their respective vesting periods.

The following weighted-average assumptions were used in the Black-Scholes option pricing model for valuation of stock options granted during the current year:

Dividend rate	0.00%
Annualized volatility	84%
Risk-free interest rate	4.05%
Expected life of options in years	4 years

The pro forma amounts estimated according to the Black-Scholes option pricing model may not be indicative of actual values realized upon the exercise of these options by the holders.

December 31, 2003 and 2002

11 SEGMENTED FINANCIAL INFORMATION

a) Reportable segments

The Company has two reportable segments, which offer different products and services: the Pro-Rod well services division and the manufacturing division. The accounting policies of the segments are consistent with those described in note 2. The Company does not allocate head office common costs, which include selling and administration expenses.

2003	Pro-Rod	Manufacturing	Head office	Total
Revenue	$ 6,381,655	$ 4,583,071	$ –	$ 10,964,726
Less: Inter-segment revenue	(515,372)	(855,054)	–	(1,370,426)
Net revenue	5,866,283	3,728,017	–	9,594,300
Segment profit (loss)	373,785	216,720	(500,948)	89,557
Identifiable assets	5,574,182	1,430,742	46,328	7,051,252

Segment profit (loss) includes amortization on property, plant and equipment of $841,020 for Pro-Rod and $31,800 for manufacturing.

2002	Pro-Rod	Manufacturing	Head office	Total
Revenue	$ 3,788,238	$ 4,197,442	$ –	$ 7,985,680
Less: Inter-segment revenue	(338,898)	(387,133)	–	(726,031)
Net revenue	3,449,340	3,810,309	–	7,259,649
Segment profit (loss)	(501,995)	166,631	(487,468)	(822,832)
Identifiable assets	4,679,612	2,012,344	394,461	7,086,417

Segment profit (loss) includes amortization on property, plant and equipment of $698,929 for Pro-Rod and $31,215 for manufacturing.

b) Geographic information

	2003		2002	
	Revenue	Non-current assets	Revenue	Non-current assets
Canada	$ 9,211,799	$ 3,390,068	$ 5,970,330	$ 3,028,855
United States	382,501	–	1,289,319	535
	9,594,300	3,390,068	7,259,649	3,029,390

December 31, 2003 and 2002

12 BASIC AND DILUTED EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted earnings (loss) per share:

	2003	2002
Numerator for basic and diluted earnings (loss) per share		
Earnings (loss) for the year	$ 89,557	$ (822,832)
Denominator for basic earnings (loss) per share		
Weighted average shares	44,924,261	38,464,952
Effect of potentially dilutive stock options	344,643	541,667
Denominator for diluted earnings (loss) per share – adjusted weighted average shares	45,268,904	39,006,619
Basic earnings (loss) per share	0.002	(0.022)
Diluted earnings (loss) per share	0.002	(0.022)

For the years ended December 31, 2003 and 2002, the following options were not included in the calculation of potentially dilutive common shares as the exercise price exceeded the average trading value of the shares: 700,000 options for common shares with an exercise price between $0.33 and $0.40.

The effect of potentially dilutive share options was not included in the calculation of diluted loss per share in 2002 as the result would be anti-dilutive.

13 NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2003	2002
Accounts receivable	$ 170,529	$ (923,770)
Inventories	(69,512)	(367,318)
Prepaids	(43,440)	(28,346)
Accounts payable and accrued liabilities	240,636	53,886
Deferred revenue	(459,094)	56,857
	(160,881)	(1,208,691)

December 31, 2003 and 2002

14 INCOME TAXES

A reconciliation of the income tax provision at the statutory rate to the provision for income tax at the effective tax rate is as follows:

	2003	%	2002	%
Earnings (loss) before income taxes	$ 89,557		$ (822,832)	
Income taxes (recoveries) at statutory rates	32,903	36.74	(322,879)	39.24
Manufacturing tax rates	(1,343)	(1.50)	28,141	(3.42)
Benefit of temporary differences and losses not recognized in financial statements	(31,560)	(35.24)	294,738	(35.82)
	–	–	–	–

The Company has not recognized the tax benefit of deductible temporary differences of approximately $4,101,381 (2002 – $4,230,000). Non-capital losses included in the net deductible differences, if not utilized, will expire as follows:

2006	$ 396,000
2007	1,098,000
2008	1,421,000
2009	1,101,000
2010 and thereafter	382,000
	4,398,000

Significant components of the Company's unrecorded long-term future tax assets and liabilities are as follows:

	2003	2002
Non-capital losses	$ 1,524,078	$ 1,464,000
Share issue costs	27,228	27,000
Temporary differences	(129,881)	–
Valuation allowance	(1,421,425)	(1,491,000)
	–	–

Potential income tax benefits in the amount of $1,421,425 (2002 – $1,491,000) have not been recognized in the accounts as the expectation of their realization did not meet the requirement of "more likely than not" under the liability method of tax allocation.

December 31, 2003 and 2002

15 RELATED PARTY BALANCES AND TRANSACTIONS

a) Measurement basis

The following transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b) Related party transactions

The Company rented premises from Widney Industries Inc., whose shareholders own 29.9% of the Company's outstanding common shares. Rent paid for the year amounted to $177,040 (2002 – $177,040).

c) Operating lease commitments

The Company has operating lease commitments with Widney Industries Inc. as follows:

i) Manufacturing and related premises – ten-year lease commencing April 1, 2001 at $118,000 per annum for years 1 through 5 and $129,800 per annum for years 6 through 10.

ii) Coiled rod manufacturing plant – ten-year lease commencing April 1, 2001 at $59,000 per annum.

16 FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt. The carrying values of these financial assets and liabilities approximate their fair values unless otherwise stated.

The Company is subject to interest rate cash flow risk in that its bank indebtedness and long-term debt are subject to fluctuations in interest rates. For each 1% change in the rate of interest on these obligations, the change in annual interest expense is approximately $11,000 based on the outstanding balances at December 31, 2003.

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